



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
FORMER ESTILL COUNTY SHERIFF**

**Calendar Year 1998**

**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
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Edward B. Hatchett, Jr.  
Auditor of Public Accounts

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
John P. McCarty, Secretary  
Finance and Administration Cabinet  
Sarah Jane Schaaf, Secretary, Revenue Cabinet  
Honorable Dwight Arvin, County Judge/Executive  
Honorable Gary Lynn Freeman, Estill County Sheriff  
Honorable Philip S. Becknell, Former Estill County Sheriff  
Members of the Estill County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the former Sheriff of Estill County, Kentucky, for the year ended December 31, 1998. This financial statement is the responsibility of the former Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the former Sheriff was required to prepare the financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former Sheriff for the year ended December 31, 1998, in conformity with the basis of accounting described above.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
John P. McCarty, Secretary  
Finance and Administration Cabinet  
Sarah Jane Schaaf, Secretary, Revenue Cabinet  
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Based on the results of our audit, we have presented a schedule of Comments and Recommendations, included herein, which discusses the following areas of noncompliance:

- The Former Sheriff Should Have Entered Into A Written Agreement To Protect Deposits
- The Former Sheriff Should Have Made Daily Deposits And Maintained Daily Checkout Sheets

In accordance with Government Auditing Standards, we have also issued a report dated June 4, 1999, on our consideration of the former Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
June 4, 1999

ESTILL COUNTY  
 PHILIP S. BECKNELL, FORMER SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 1998

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Receipts

State Fees For Services:

Finance and Administration Cabinet	\$ 6,096		
Cabinet For Human Resources	742	\$	6,838

Circuit Court Clerk:

Sheriff Security Service	\$ 5,210		
Fines and Fees Collected	3,790		9,000

Fiscal Court			2,726
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County Clerk - Delinquent Taxes			2,739
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Commission On Taxes Collected			76,900
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Fees Collected For Services:

Auto Inspections	\$ 4,245		
Accident and Police Reports	225		
Serving Papers	7,285		11,755

Other:

Advertising Fees	\$ 418		
Carrying Concealed Deadly Weapon Permits	1,980		
Miscellaneous	3,940		6,338

Interest Earned			2,116
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Borrowed Money:

State Advancement	\$ 26,641		
Bank Note	4,000		30,641

Gross Receipts (Carried Forward)		\$	149,053
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ESTILL COUNTY  
 PHILIP S. BECKNELL, FORMER SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
 Calendar Year 1998  
 (Continued)

Gross Receipts (Brought Forward)	\$	149,053
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Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Gross Salaries	\$	28,070
Part-Time Gross Salaries		21,257

Employee Benefits-

Employer's Share Social Security		3,640
Employer's Share Retirement		1,936
Employer Paid Health Insurance		2,208

Materials and Supplies-

Office Materials and Supplies		347
Uniforms		1,366

Auto Expense-

Gasoline		5,017
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Other Charges-

Prisoner Transport		1,386
Postage		749
Telephone		227
Miscellaneous		1,639

Capital Outlay-

Vehicles		1,024
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Kentucky State Treasurer:

Carrying Concealed Deadly Weapon Permits		1,235
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Debt Service:

State Advancement		26,641
Notes		4,000

Total Disbursements		<u>100,742</u>
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Net Receipts	\$	48,311
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Less: Statutory Maximum		<u>48,726</u>
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Balance Due at Completion of Audit	\$	<u><u>0</u></u>
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The accompanying notes are an integral part of the financial statement.



ESTILL COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 1998

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting pursuant to KRS 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.65 percent.

ESTILL COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 1998  
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The former Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. The depository institution has made such a pledge, and the depository institution's board of directors or loan committee approved the pledge. However, the depository institution did not have a written agreement with the former Sheriff.

Note 5. Lease

The office of the Sheriff is committed to a lease agreement with Government Leasing Company for a police cruiser. The agreement requires a monthly payment of \$201 for 36 months to be completed on February 11, 2001. The total balance of the agreement was \$ 5,231 as of December 31, 1998.

Note 6. Health Insurance Premiums

KRS 61.405 allows county fee officials to purchase twelve (12) months of health insurance coverage for their employees, if excess fees are available. Therefore, the expenditures are allowable. The Attorney General has issued opinion 92-108, which claims the statute is unconstitutional and discriminatory. The Attorney General also issued OAG 94-11 on February 25, 1994, stating health or medical insurance provided uniquely for an official and not in connection with a government program providing benefits to all county employees would be personal in nature.

## COMMENTS AND RECOMMENDATIONS



ESTILL COUNTY  
PHILIP S. BECKNELL, SHERIFF  
COMMENTS AND RECOMMENDATIONS

Calendar Year 1998

STATE LAWS AND REGULATIONS:

1. The Former Sheriff Should Have Entered Into A Written Agreement To Protect Deposits

The former Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). The Sheriff had a bank balance of \$278,600; FDIC insurance of \$100,000; and securities pledged of \$1,010,000 as of January 7, 1998. Even though the former Sheriff obtained pledged securities of \$1,010,000, the pledge was not evidenced by a written agreement. We recommend the Sheriff's office enter into a written agreement with the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Management's Response:*

*I understand.*

2. The Former Sheriff Should Have Made Daily Deposits And Maintained Daily Checkout Sheets

The former Sheriff did not deposit receipts intact daily or reconcile receipts to daily checkout sheets. The State Local Finance Officer, under the authority of KRS 68.210, established minimum accounting requirements which include depositing receipts intact on a daily basis and reconciling receipts to daily check out sheets. We recommend these procedures be followed at all times.

*Management's Response:*

*I understand.*

PRIOR YEAR:

1. The Sheriff Should Have Entered Into A Written Agreement To Protect Deposits
2. The Sheriff Should Make Daily Deposits And Maintain Daily Checkout Sheets

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







Edward B. Hatchett, Jr.  
Auditor of Public Accounts

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Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Estill County Sheriff as of December 31, 1998, and have issued our report thereon dated June 4, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Estill County Sheriff's financial statement as of December 31, 1998, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Estill County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Dwight Arvin, County Judge/Executive  
Honorable Philip S. Becknell, Former Estill County Sheriff  
Members of the Estill County Fiscal Court  
Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
June 4, 1999

